

**All questions related to Assessment Year 2020-21, unless stated otherwise in the questions / case studies.**

**Division A – Multiple Choice Questions**

**Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.**

1. Mr. S a share broker, sold a building to his friend A, who is a dealer in automobile spare parts, for ` 120 lakh on 10.11.2019, when the stamp duty value was ` 150 lakh. The agreement was, however, entered into on 1.9.2019 when the stamp duty value was ` 140 lakh. Mr. S had received a down payment of ` 15 lakh by a crossed cheque from A on the date of agreement. Mr. S purchased the building for ` 95 lakh on 10.5.2017. Further, Mr. S also sold an agricultural land (situated in a village which has a population of 5,800) for ` 60 lakhs to Mr. Vivek on 01.03.2020, which he acquired on 15.06.2014 for ` 45 lakhs. Stamp duty value of agricultural land as on 1.3.2020 is ` 75 lakhs

CII for F.Y. 2014-15: 240; F.Y. 2017-18: 272; F.Y. 2019-20: 289.

In the light of the above facts, you are required to answer the following:

- (i) Is there any requirement to deduct tax at source on consideration paid or payable on transfer of building and agricultural land?
- (a) No; no tax is required to be deducted at source on transfer of any capital asset
- (b) Yes; Mr. A is required to deduct tax at source under section 194-IA.
- (c) Yes; Mr. Vivek is required to deduct tax at source under section 194-IA.
- (d) Yes; Mr. S is required to deduct tax at source under section 194-IA.
- (ii) In respect of transfer of building, capital gains chargeable to tax in the hands of Mr. S would be –

- (a) long-term capital gains of ` 49,06,250
- (b) long-term capital gains of ` 39,06,250
- (c) short-term capital gains of ` 45,00,000
- (d) short-term capital gains of ` 55,00,000

(iii) Assuming that Mr. S has other income exceeding basic exemption limit, the tax payable (excluding surcharge and health and education cess) on transfer of building and agricultural land, would be –

- (a) ` 7,81,250
- (b) ` 13,97,500
- (c) ` 9,81,250
- (d) ` 10,97,500

(iv) In respect of purchase of building from Mr. S, income chargeable to tax in the hands of Mr. A would be –

- (a) ` 20 lakh
- (b) ` 30 lakhs
- (c) ` 15 lakhs
- (d) Nil

**(2 Marks \*4 Question = 8)**

2. Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2019 and charges ` 14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

- (a) ` 14,50,000 shall be charged to tax as capital gains
- (b) ` 14,50,000 shall be charged to tax as income from other sources
- (c) ` 14,50,000 shall be charged to tax as income from profession
- (d) No tax implications shall arise

**(2 Marks)**

3. Which of the following statements is/are true in respect of taxability of agricultural income under the Income-tax Act, 1961?

- (i) Any income derived from saplings or seedlings grown in a nursery is agricultural income exempt from tax u/s 10(1).
- (ii) 60% of dividend received from shares held in a tea company is agricultural income exempt from tax u/s 10(1).
- (iii) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net

agricultural income for the P.Y. exceeds ` 5,000 and the total income (including net agricultural income) exceeds ` 2,50,000.

(iv) While computing income tax liability of an Assessee aged 50 years, agricultural income is required to be added to total income only if net agricultural income for the P.Y. exceeds ` 5,000 and the total income (excluding net agricultural income) exceeds ` 2,50,000. Choose from the following options:

(a) (i) and (iii)

(b) (ii) and (iii)

(c) (i) and (iv)

(d) (i), (ii) and (iv)

**(2 Marks)**

4. The Assessing Officer while scrutinizing the return of an assessee find under reporting of income for the reason of misreporting of facts of such income and thus levied penalty on such under reported income resulting from misreporting of income. The penalty to be imposed by the A.O. shall be at the rate of \_\_\_\_\_ tax payable on such misreported income.

(a) 50%

(b) 100%

(c) 200%

(d) 300%

**(2 Marks)**

5. Gama Inc. availed digital advertising space from Monaco Inc. of Japan for marketing its mobile handsets in India. Gama Inc. paid in Japan, US dollar 10,000 to Monaco Inc. (Assume the Indian rupee value as 6,50,000). The amount of equalisation levy payable by Gama Inc. is -

(a) @6% ` 39,000

(b) @ 10% ` 65,000

(c) @40% ` 2,60,000

(d) NIL

**(2 Marks)**

6. The four tie-breaker tests to be applied to determine the residence are (a) habitual abode; (b) national; (c) permanent home; and (d) centre of vital interests. The correct sequence of tests is -

(a) (d), (c), (a), (b)

(b) (c), (a), (d), (b)

(c) (a), (c), (b), (d)

(d) (c), (d), (a), (b)

**(2 Marks)**

7. The quarterly return of TDS relating to payments made to non-resident and the foreign company being a unit holder of mutual funds is to be filed in return form number:

- (a) 24Q (b) 27Q  
(c) 26Q (d) 22Q

(1 Mark)

8. Any term used in a DTAA with a foreign country and not defined in the agreement or the Act but assigned a meaning in the notification issued by the Central Government in the Official Gazette, shall have the meaning assigned in such notification and shall be effective from the -

- (a) Date on which the said DTAA came into force  
(b) Date on which the said notification became effective  
(c) Date on which the said notification published in the Official Gazette  
(d) Date on which the said DTAA entered

(1 Mark)

9. Any asset, on which depreciation is claimed on the basis of Straight Line Method (SLM) is sold and the amount by which money payable together with scrap value, fall short of the Written Down Value (WDV) of such asset, the amount of such deficiency in value of asset is allowed to be written off in the year of sale as \_\_\_\_\_.

- (a) Balancing charge (b) Terminal depreciation  
(c) Loss on sale of asset (d) Residual value of asset

(1 Mark)

10. As per section 9A, an eligible off-shore investment fund shall furnish within 90 days from the end of the financial year, a statement containing information relating to fulfillment of specified conditions and such other information or documents as may be prescribed. Penalty of \_\_\_\_\_ to be levied, if investment fund failed to comply with the requirements as per section 271FAB.

- (a) ` 1,00,000 (b) ` 500 per day  
(c) ` 5,00,000 (d) ` 10,00,000

(2 Marks)

11. The provisions relating to taxation of indirect transfer of shares of an Indian company were introduced *vide* Finance Act, 2012, as a consequence of which of the following decisions of the Supreme Court -

- (a) McDowell & Co. Ltd. v. CTO

- (b) Vodafone International Holdings B.V. vs. UOI
- (c) Union Of India vs Azadi Bachao Andolan
- (d) CIT Vs Yokogawa India Limited

(2 Marks)

12. What is the timeline within which Ind Co is required to furnish information pertaining to transfer of shares of Mauritius Intermediary Co by Germany Co if the transaction has the effect of directly or indirectly transferring rights and management of Ind Co -

- (a) Within the due date for filing return of income for the year in which the transfer has taken place
- (b) Within 90 days from the date of the transaction
- (c) Within 90 days from the end of the Financial Year in which such transfer has taken place
- (d) There is no requirement on Ind Co to furnish information

(1 Mark)

13. Central Board of Direct Taxes (CBDT) vide Circular No. 8 of 2017 dated 23<sup>rd</sup> February, 2017 has clarified that the Place of Effective Management (POEM) provisions shall not apply to a company having turnover or gross receipts in a financial year of \_\_\_\_\_.

- (a) ` 30 crore or less
- (b) ` 10 crore or less
- (c) ` 50 crore or less
- (d) ` 5 crore or less

(2 Marks)

14. Chirag entered into an agreement for sale of his house property located at Jaipur to Yash on 1st August, 2018 for a total sale consideration of ` 95 lakh. Yash paid an amount of ` 20 lakh by account payee cheque to Chirag on 1st August, 2018 and balance was agreed to be paid at the time of registration of the Conveyance Deed which could only be executed by Chirag on 1st September 2019. The Stamp Valuation Authority determined the value of the house property on the date of registration of deed at `140 lakh. However, the value determined by the Stamp Valuation Authority of the house on the date of agreement (1<sup>st</sup> August, 2018) was ` 110 lakh. The sale value for the purpose of computing the capital gain of the property in A.Y. 2020-21 to be taken by Chirag shall be:

(a) ` 95 lakh

(b) ` 110 lakh

(c) ` 140 lakh

(d) ` 120 lakh

(2 Marks)

**Division B – Descriptive Questions**

Question No. 1 is compulsory

Attempt any **four** questions from the remaining five questions

**Q.1** Chenab Limited, engaged in the business of manufacturing, shows a net profit of ` 200 lakhs for the year ended 31st March, 2020 after debiting and crediting the following items to its Statement of Profit & Loss:

- (a) Depreciation provided on straight line basis debited to the Statement of Profit & Loss was ` 20 lakhs.
- (b) ` 6 lakhs on salary for its research assistants and ` 4 lakhs spent on purchase of materials for in-house research and development facility approved by the prescribed authority.
- (c) Legal expenses in connection with issue of Bonus Shares ` 2 lakhs, and issue of Rights shares ` 2 lakhs.

- (d) The opening and closing stocks of the company were undervalued by 10%.  
[Opening stock ` 30 lakhs; Closing Stock ` 40 lakhs].
- (e) Secret commission paid to secure business for the company ` 8 lakhs.
- (f) Payment of ` 15 lakhs to an employee in connection with his voluntary retirement in accordance with a scheme of voluntary retirement.
- (g) The company adopts a policy of providing 5% of the Sundry Debtors in the beginning of the year as provision for doubtful debts. Sundry Debtors outstanding as on 01.04.2019 is ` 600 lakhs.
- (h) No tax has been deducted from a sum of ` 12 lakhs credited to a contractor, who is a non-resident firm for some of the works outsourced. However, the contractor has considered the same in the return of income filed by him on 31<sup>st</sup> July, 2020 and has paid the taxes due on such income.
- (i) Cash donation given to a political party ` 8 lakhs.

**Additional information:**

- (i) Normal depreciation allowable is ` 25 lakhs which includes depreciation on new plant and machinery costing ` 30 lakhs acquired and installed in January, 2020.
- (ii) Addition to fixed assets given in (i) above during the year includes ` 25 lakhs on account of machinery acquired for its in-house scientific research and development facility approved by the prescribed authority.
- (iii) Bad debts actually written off during the year by adjusting provision for bad debts account was ` 15 lakhs.

Compute Total income for Assessment Year 2020-21 indicating reasons for treatment of each item. Ignore Minimum Alternate Tax. **(14 marks)**

- Q.2 (a)** From the following information provided for the previous year 2019-20, compute the total income and tax liability considering provisions of Alternate Minimum Tax assuming the assessee is an individual. Also ascertain the amount of AMT credit

Net Profit as per Profit & Loss A/c	` 19,05,000
Depreciation as per Profit & Loss A/c	` 3,50,000
Depreciation as per Income Tax Rules	` 3,60,000

Inadmissible expenses	₹ 1,40,000
Deduction u/s 10AA (computed)	₹ 12,00,000
Deduction u/s 80-IA	₹ 35,000

(5 Marks)

(b) State **with reasons**, whether the following statements are true or false:

- When interest payable to a non-resident by the Government or a public sector bank within the meaning of section 10(23D), deduction of tax shall be made at the time of payment thereof in cash or by the issue of a cheque or draft or by any other mode, or at the time of credit of such interest to the account of the non-resident, whichever is earlier.
- Where any interest is payable by a person resident in India, the same is deemed to accrue or arise in India

(2 Marks)

(c) State whether quoting of PAN in the following transaction is mandatory or not, as per the provisions of Income Tax Act, 1961 for A.Y. 2020-21:

- A makes payment to Hotel Radisson Ahmedabad of ₹ 50,000 against the bill raised by the Hotel.
- Abhishek, in a single transaction makes contract of ₹ 1,20,000 for sale / purchase of securities (other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.
- Payment to Mutual Funds of ₹ 70,000 for purchase of its units.

Your answers must be supported with reasons.

(3 Marks)

(d) “Dividend received by Indian companies from specified foreign companies would be subject to a concessional tax treatment” - Is this statement correct? Examine. How would you compute the income-tax payable by an Indian company, whose total income includes dividend received from a specified foreign company?

(4 Marks)

**Q.3 (a)** P Textiles Ltd., (PTL) has two separate divisions J and K. Division K was stated on 14.05.2010. The summarized financial position of the company as on 1st April, 2019 was as under:

Share capital	1,200	Fixed assets:	
Reserves and surplus	500	Division J	800



Loan creditors:		<b><u>Division K</u></b>	
Division J	400	Goodwill	30
Division K	300	Vacant Land (Purchased on 02.03.2011)	170
		Plant and Machinery (WDV)	400
		<b><u>Current assets:</u></b>	
		Division J	550
		Division K	450
Total	2,400	Total	2,400

On 01.04.2019, Division K was acquired by V Textile Pvt. Ltd., in a slump sale, the entire sale consideration of Rs. 310 lakhs being paid through RTGS. The following additional information are available relating to the fixed assets of Division K:

- (i) All the plant and machinery were acquired 11 months back.
- (ii) The WDV of the plant and machinery of division K as per the Income-tax Act, 1961 was ` 350 lakhs.

Cost inflation index for FY 2010-11 is 167 and for FY 2019-20 is 289.

You are required to ascertain the capital gain, if any, arising from the slump sale.

**(4 Marks)**

(b) Discuss whether the following payments are subject to Tax Deducted at Source (TDS). If so, find out the amount of tax to be deducted at source:

- (1) Payment of ` 4,00,000 to a resident catering contractor. PAN is intimated. What will the rate of TDS if PAN is not intimated
- (2) LIC of India makes a payment of ` 6,00,000 as rent to the Central Government for a building in which one of its branches is situated.
- (3) Payment of winning from lottery ` 2,00,000 to K who has furnished PAN.

**(3 Marks)**

(c) The Assessing officer has the power to make an assessment to the best of his judgment, in certain situations. What are they?

**(3 Marks)**

(d) Titicaca Inc. incorporated in Peru, South America and Pushkar Limited incorporated in India are associated enterprises. During the course of assessment, for the A.Y. 2020-21, the Assessing Officer proposes to enhance the income of Pushkar Limited by ` 70 lakhs due to variation in determination of the arm's length price of its product bought from Titicaca Inc. and sent a draft assessment order to Pushkar Limited. Pushkar Limited filed his objection to the Assessing Officer and the Dispute Resolution Panel (DRP) and sought directions. The DRP, however, further enhanced the income by ` 18 lakhs on the basis of the materials available on a different issue which was not raised by Pushkar Limited. Is the action of the DRP valid? Discuss.

(4 Marks)

**Q.4 (a) Compute the interest income to be disallowed u/s 94B in the following cases:**

Particulars	Case I	Case II	Case III
	` in lakhs		
Net Profit after deduction of the following items:	1,000	1,000	1,000
Interest to SBI	70	50	200
Interest to associated enterprise	200	110	320
Interest to unrelated parties	500	190	300
Depreciation	90	80	110
Provision for taxation	340	170	70
Proposed dividend	300	150	100

(4 Marks)

(b) Mohan, the owner of piece of land at Chennai, entered into an agreement with Reality Builders as a Joint Development Agreement for construction of a housing complex.

He is desirous to seek your opinion in the context of provisions of Income-tax Act, 1961 as to:

- (i) The conditions specified under the Act for charge of capital gain;
- (ii) When the capital gain shall be taxed;
- (iii) How such capital gain has to be worked out.

(6 Marks)

(c) (i) What is the role of Transfer Pricing Officer in the matter of reference made by the Assessing Officer u/s 92CA of the Income-tax Act, 1961?

- (ii) Is it possible for the Assessing Officer to pass assessment order without considering Arm's Length Price determined by the Transfer Pricing Officer? **(4 Marks)**

**Q.5 (a)** The details given hereunder relate to two non-residents, Mr. Frank Lampard, an English football player and his sister, Ms. Eva Lampard, a magician for the A.Y.2020 -21–

Particulars		Mr. Frank Lampard	Ms. Eva Lampard
(1)	Participation in football tournaments in India	₹ 25 lakh	
(2)	Winnings from horse races in India	₹ 15,000	
(3)	Contribution of an article relating to the history of the football game in a leading magazine in India	₹ 25,000	
(4)	Performance in a magic show in India		₹ 3 lakh

With reference to the provisions of the Income-tax Act, 1961, you are required to –

- (i) Compute their tax liability for the A.Y.2020-21.
- (ii) Discuss whether the above income are subject to deduction of tax at source.
- (iii) Explain whether it is necessary for them to file their return of income for A.Y.2020-21. **(6 Marks)**
- (b) Write Short Notes on Consequences of Impermissible Avoidance Arrangement (section 98) **(4 Marks)**
- (c) Geomatics Ltd., an Indian company, provides technical services to a company, MNC Inc., located in a Notified Jurisdictional Area (NJA) for a consideration of ₹ 40 lakhs in January, 2020. It charges ₹ 48 lakhs and ₹ 52 lakhs for similar services rendered to Alpha Inc. and Beta Inc., respectively, which are not located in a NJA. Alpha Inc. and Beta Inc. are not associated enterprises of Geomatics Ltd. Assuming that the variation notified by the Central Government for such class of international transactions is 3% of the transaction price, discuss the tax implications under section 94A read with section 92C in respect of the above transaction of provision of technical services by Geomatics Ltd. to MNC Inc. **(4 Marks)**

**Q.6 (a)** Can an assessee, fulfilling all the prescribed conditions, having total income of ` 1,84,000 and paying house-rent @ `4,800 p.m. in respect of the residential accommodation occupied by him at Mumbai, claim the deduction for the house rent so paid while computing his taxable income?

**(6 Marks)**

**(b)** Mr. Srinivasan, aged 61 years, furnishes the following particulars for the year ending 31.03.2020:

- (a) Life Insurance Premium paid – ` 30,000, actual capital sum of the policy assured for ` 1,20,000. The insurance policy was taken on 01.04.2011;
- (b) Contribution to Public Provident Fund – ` 40,000 in the name of father;
- (c) Tuition fee payment – ` 8,000 each for 2 sons pursuing full time graduation course in Calcutta; Tuition fee for daughter pursuing PHD in Kellogg University, USA – ` 2.50 Lacs;
- (d) Housing loan principal repayment – ` 32,000 to Axis Bank. This property is under construction at Calcutta as on 31.03.2020;
- (e) Principal repayment of housing loan taken from a relative – ` 70,000. The property is self-occupied situated at Pune;
- (f) Deposit under Senior Citizens Savings Scheme – ` 15,000;
- (g) Five-year deposits in an account under Post Office Time Deposit Scheme – ` 50,000;
- (h) Investment in National Savings Certificate – ` 70,000;

Compute the deduction eligible under appropriate provisions of section 80C.

**(8 Marks)**